UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Colorado Interstate Gas Company Docket No. RP05-618-001

ORDER ON COMPLIANCE FILING

(Issued March 27, 2006)

1. On November 23, 2005, Colorado Interstate Gas Company (CIG) filed *pro forma* tariff sheets[1] to add a true-up feature to its Fuel and Lost and Unaccounted (L&U) and Other Fuel Gas reimbursement mechanisms, as well as multiple other changes to its tariff. The filing of *pro forma* tariff sheets was made in response to the Commission's order dated September 30, 2005, which required CIG to either make a compliance filing establishing a fuel true-up mechanism, or show cause why it should not be required to make such a filing.[2] Because it encompasses broad changes beyond those required by the September 30, 2005 Order, the Commission will reject the filing and direct CIG to refile tariff sheets for the sole purpose of providing a true-up of over- and under-reimbursements from shippers under CIG's existing Fuel, L&U, and Other Fuel gas tracking provisions in CIG's existing tariff. In a separate proceeding, pursuant to section 4 of the Natural Gas Act (NGA), CIG may propose to expand or modify its existing fuel tracker, or propose changes beyond those required for compliance in this proceeding.

---

[1] First Revised Sheet No. 380F, First Revised Sheet No. 380G, First Revised Sheet No. 380H, Original Sheet No. 380H.01, Original Sheet No. 380H.02, Original Sheet No. 380H.3, and Original Sheet No. 380H.04 to Pro Forma First Revised Volume No. 1.

[2] *Colorado Interstate Gas Co.*, 112 FERC ¶ 61,356 at P 1 (2005).

Background

2. On August 31, 2005, CIG filed a revised tariff sheet to reflect the new quarterly lost and unaccounted for and other fuel gas percentage, the annual transportation fuel gas percentage, and the annual storage fuel gas percentage, pursuant to section 1.3 of the General Terms and Conditions (GT&C) of its tariff. The filing was protested by Indicated Shippers who argued that the Commission should require CIG to adopt a true-up feature in its fuel reimbursement mechanism.[3]

3. The September 30, 2005 Order accepted the reimbursement percentages, but directed CIG to submit a tariff filing within 30 days with a proposed true-up mechanism or show cause why not having a true-up mechanism conforms to Commission policy.[4] On November 23, 2005, CIG submitted *pro forma* tariff sheets to present its proposal for a true-up feature in its fuel and L&U gas reimbursement mechanisms. CIG requests that the Commission's order regarding this filing enable an effective date of October 1, 2006, with a data collection period reflecting the true-up data elements starting January 1, 2006. CIG states that an October 1, 2006, effective date will make these changes coincident with the effective date of other changes which will result from CIG's next general rate case. [5]

November 23 Filing

4. The November 23 filing proposes to amend Article 42 of the GT&C of CIG's FERC Gas Tariff to implement a fuel true-up mechanism which is similar in structure and application to CIG's former purchased gas adjustment mechanism. CIG asserts that the

---

[3] The Indicated Shippers are BP Energy Company, BP America Production Company and Marathon Oil Company.

[4] *Colorado Interstate Gas Co.*, 112 FERC ¶ 61,356 (2005).

[5] If CIG wishes to make these changes coincident with its next rate case, it should file these changes in its tracking mechanism as part of its system-wide rate case, pursuant to section 4 of the (NGA), with the attendant burden on it to show that its proposal is just and reasonable. On February 17, 2006, the Commission issued an order granting CIG's petition to amend the stipulation and agreement in its prior section 4 rate proceeding, allowing CIG an additional 60 days to negotiate a possible settlement of its future system-wide rates with its interested shippers and customers. *See Colorado Interstate Gas Company*, 114 FERC ¶ 61,173 (2006).

intent behind these additions to Article 42 is twofold. First, it states that the true-up is intended to credit, or debit, future reimbursements from shippers if there is a difference between the actual gas quantity of Fuel and L&U and Other Fuel Gas incurred and the quantity tendered as reimbursement from shippers.[6] Second, CIG states it is including true-up features within the Fuel and the L&U reimbursement mechanism to keep CIG and its shippers economically neutral in light of the timing differences and price variations caused by the monthly differences in actual versus reimbursed quantities of Fuel and L&U and Other Fuel Gas due to the various operational and imbalance activities which take place on its system.

5. CIG states that it will continue to use history as a guide in developing the prospective fuel cost reimbursement percentage. In addition to the prospective reimbursement percentage, CIG will compute an unrecovered fuel gas cost, stated as a positive or negative reimbursement percentage, and will charge or refund to shippers the amount of the over or under-recovered fuel cost. CIG states that it will maintain a deferral account, including any necessary sub-accounts, to track the over and under-collection of all Fuel and L&U for gas related to transportation, compression and storage services. CIG states that it will include these over or under-recoveries in the projected requirements for the coming year.

6. CIG has also proposed an additional feature to account for differences in the reimbursement quantity and actual Fuel and L&U, arising from CIG's either packing or drafting its system depending upon the direction of such differences. Another component that CIG proposes to include in each annual Fuel and L&U filing deals with the difference between the actual costs of shrinkage and other fuel and liquid revenue credits applied against such amounts, miscellaneous fuel, system supply adjustments (which include changes in linepack, imbalance activity, operational sales or purchase of gas, and system storage activity), electricity costs, and L&U and the corresponding retained amounts. CIG states that this cost will be computed in both dollars and dekatherms, and will reflect the timing and cost variations of all imbalance-related activity on the system in the Fuel and L&U reimbursement mechanism.

---

[6] This element alone would arguably have been sufficient for the purpose of compliance with the September 30, 2005 Order. However, CIG has offered wider-ranging tariff revisions, beyond what was reasonably required by the September 30, 2005 Order.

Public Notice, Interventions and Protests

7. Public notice of CIG's compliance filing was published in the *Federal Register*, 70 FR 72804 (2005), with comments, interventions and protests as provided in section 154.210 of the Commission's regulations. Pursuant to Rule 214 (18 C.F.R. §385.214(2005)), all timely-filed motions to intervene and any motions to intervene out-of time before the issuance date of this order are granted. Indicated Shippers filed a protest, and CIG filed an answer to Indicated Shippers' protest. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.213(a)(2) (2005), prohibits an answer to protests, unless otherwise permitted by the decisional authority. The Commission finds good cause to accept both Indicated Shippers' protest and CIG's answer.

Indicated Shippers' Protest

8. Indicated Shippers argue that CIG's proposed tariff changes are unjust and unreasonable because they are too ambiguously drafted and would essentially permit CIG to: (1) charge and collect fuel and unaccounted for gas quantities not based on actual fuel or measurable L&U; (2) true-up in-kind charges with a monetary charge converted to gas quantities; (3) over-recover system costs already recovered in CIG's transportation rates; and (4) convert the fuel and L&U mechanism to a miscellaneous account to recover costs associated with linepack, imbalance activity, operational sales and purchases and system storage activity. Indicated Shippers further argue that CIG has proposed a system that allows it to submit estimated quantities in place of actual quantities, and even then when CIG's recorded L&U is a negative number, CIG could set its fuel and L&U at zero and retain the difference.

9. Indicated Shippers request that the Commission reject CIG's proposed tariff sheets and order CIG to file new tariff sheets that require actual fuel and appropriately determined L&U for the previous calendar year to be used as the fuel rate for the following year, adjusted only for any over-recovery or under-recovery of fuel and L&U during the previous calendar year. To permit comparisons with Form 2 data, Indicated Shippers recommend that CIG be required to make its annual fuel filing on or before March 1, to be effective April 1, instead of September 1, to be effective October 1, as proposed by CIG.

10. Indicated Shippers argue that a fuel true-up mechanism is not the proper vehicle for the pass-through of operational gas costs, because CIG executes operational gas transactions to balance linepack and system storage for operational purchases. Indicated Shippers argue that such imbalance costs are accommodated through CIG's cashout mechanism, and that incorporating operational gas costs in the fuel charge would

essentially require shippers that remain in balance to subsidize the cash-out activities of shippers that cash-out their imbalances. Indicated Shippers also argue that CIG should not be allowed to recover costs already included in its transportation rates, and that the cost of linepack as well as working storage gas and storage capacity needed to operate the CIG system are already recovered in CIG's rates.

11. Indicated Shippers assert that CIG's proposal includes numerous estimates and adjustments to actual Fuel and L&U, so that what CIG proposes to base its fuel rate on has nothing to do with "actual" fuel costs. Indicated Shippers argue that CIG should not be allowed to calculate the true-up volumes and then monetize them. Indicated Shippers assert that CIG's proposal changes CIG's existing in-kind fuel reimbursement, and introduces contentious issues that relate to the allocation of Fuel and L&U among the months covered by a fuel filing, where differing gas prices are used each month for monetizing the fuel usage.

12. Finally, Indicated Shippers state that CIG fails to define what is included in Other Fuel Gas, fails to state how billing determinants and total receipts quantity are to be determined, and has not explained why the L&U and Other Fuel Rate for Rate Schedule CS-1 is fixed at 0.15 percent.

CIG's Answer

13. CIG responds to the arguments made by the Indicated Shippers claiming that the protest is based on wrong assumptions, and states that: (1) it is not proposing to collect in its new fuel rates any costs now included in its approved transportation rates; (2) its true-up should include monetization as a means of keeping shippers and CIG economically neutral to changes in the price of gas; (3) its true-up should include a means of adjusting actual (historic) data with estimated future changes, in order to better align the fuel retention percentage with expected usage; (4) it is not proposing to retain gas or value when the calculated retention percentage is less than zero; and (5) it will provide at the time of each true-up filing all data relevant to the filing.

14. CIG states that it is true that the cost of its base storage gas and capitalized linepack are included in its transportation rate, but when these assets are "encroached" upon, the economic ramifications are not in rate base. As an example, CIG states that when it has to buy gas to make up for processing shrinkage, the cost of gas purchased by CIG may be higher than the cost of gas to be made up.

15. CIG argues that a volumetric-only true-up will not keep either CIG or its shippers whole for differences in the value of gas sold/purchased or used to/from linepack or storage, and that adjusting historic data for expected future changes will minimize the

impact of the true-up on CIG's customers.[7] CIG acknowledges that its filing lacks important details, such as the price that CIG intends to use to value gas when it is bought and sold at different times, but states that this information was purposely omitted because such information was "voluminous and complex," and CIG reasoned it would be inappropriate in a tariff filing. CIG states that it will provide, at the time of each true-up filing, all data and workpapers relevant to the filing.

16. CIG states that while Indicated Shippers' argument, that incorporating imbalance and other non-fuel costs/revenues into the formula would mean that shippers who stay in balance could be required to pay for gas cost timing differences created by shippers who do not stay in balance, may be true in the abstract, it ignores the benefits all shippers derive from an integrated pipeline operation.

17. In response to Indicated Shippers' request that CIG should use a calendar year to permit ease of comparison with Form 2 data, CIG states that it should be permitted to continue use of fiscal year data (October-September). CIG states that it has historically tracked gas cost/revenue data using an October-September fiscal year and that it now makes quarterly filings detailing Form 2 type data, so Indicated Shippers can compute fiscal year data for comparison purposes. CIG also explains that how it determines L&U and defines what is included within "Other Fuel Gas" has been in its tariff for many years, and it had no intent to change these provisions.

18. Finally, CIG explains why it has fixed the L&U rate for Rate Schedule CS-1 service at 0.15 percent as follows. In the certificate application for the CS-1 service, CIG proposed the low point in the expected L&U range of between 0.15 percent and 0.25 percent, and the Commission accepted the relevant tariff sheets. [8]

Discussion

19. Our review of CIG's proposal indicates that it includes not only compressor fuel, storage compressor fuel, lost and unaccounted for gas but gas related to shrinkage and liquid revenue credits, changes in line pack, storage gas, imbalances, operational gas

---

[7] The Commission notes that unless the forecast or future expectations that are the basis for the adjustment are correct, an erroneous forecast or assumption might exacerbate rather than ameliorate the impact of the true-up.

[8] *See Colorado Interstate Gas* Co. and *Cheyenne Plains Gas Pipeline Co.*, 105 FERC ¶ 61,095 at P 83 (2003).

bought and sold for various purposes, and electricity commodity costs. Further, CIG would monetize gas volumes and carry deferred costs or revenues forward in a system of deferred accounting analogous to the purchased gas adjustment mechanisms in place during a period when pipelines were merchants and were permitted to include a wide assortment of gas supply costs in a system of deferred cost accounting. CIG also proposes to adjust actual volumes from historical periods forward on an estimated basis.

20. We agree with the Indicated Shippers that CIG has proposed changes far broader than the narrow scope of the compliance directive of the September 30, 2005 Order. The Commission is rejecting the *pro forma* tariff sheets and directing CIG to refile sheets to include only a mechanism that trues-up over- and under-reimbursements from shippers under current tracking provisions in CIG's existing tariff, and no more. CIG of course retains the option to expand or modify its tracker provisions and the related true-up provision in a separate NGA section 4 proceeding, such as its forthcoming system-wide rate proceeding.

The Commission orders:

(A) CIG's *pro forma* tariff sheets are rejected.

(B) Within 30 days of the date this order issues, CIG shall file actual tariff sheets to establish a true-up mechanism for over- or under-reimbursements under its existing tariff tracking provisions, as discussed in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.